

VISIT...

LANZAROTE
Caliente.COM

Introduction to daytrading methods: knowing when to buy and when to sell

Back to
MODULE 1

● **Main Points:**

- **In daytrading, you should get as many things stacked in your favor as possible prior to entering a trade.** We will go through a "checklist" of things to look for that you should memorize and practice paying attention to prior to buying stock. It's a balance: you can't wait til "all the planets line up" or you'll be buying the obvious top, where faster traders are selling to you. If you enter without having *any* of these things in your favor you are increasing your risk, however.
- It's helpful to evaluate trade risk management and entry/exits **like a funnel**, with **broader market dynamics considered first** (naz/spoos up or down?), the **sector** you're playing considered second (eg \$SOX, \$GIN), your stock's **5-day trend** support/resistance levels considered third, and finally **level 2 & time and sales momentum, volume, RSI, MACD and other technical chart patterns & indicators** for your specific stock considered lastly. Don't buy stock if the overall market's tanking, it may take level 2 a brief time to 'catch up'. Anticipate larger market direction first, then use level 2 to time your entries, exits and trade sizes.

"A Day in the Life of a Professional Daytrader"

Premarket Action



- Get your trading rig set up at least an hour before the market opens. Turn on CNBC & get some coffee.
- Read the online headlines on [CBS Marketwatch.com](http://CBSMarketwatch.com) and [ZD news](http://ZDnews), others if you want. Put a few of the "Stocks to Watch Today" in your software watchlist if they meet our general [trading criteria](#).
- Also look at these two 'big picture' considerations to help you "prepare for battle":

S&P Futures on CNBC at 9:25am

This tells you which way the market will open, not necessarily the overall trend for the next 30-60 minutes. If the S&P futures (spoos) are up over +8 or higher premarket that's bullish etc. Remember the market may open high and turn down on a dime at 9:40am. Wait to enter your stock buys til after 10am in general.

**CPI/PPI Reports Out Today?
Is Greenspan Talking?
Triple Witching Friday?**

Any of these three factors can influence the market in either direction. **Be aware that there is likely to be more volatility on days when these events occur.**

Premarket Gaps
Up or Down on
Volume >20K

This is CRITICAL to look at if you're going to be trading during the first ten minutes of the market open. **How far has a stock gapped in either direction premarket, and on what kind of volume?** If CSCO has gapped down 2 1/4 points premarket due to a bad news story, how do you play it? Probably buy the gap down on open if buyers start to come in.

If AMAT gaps up + .8 on positive earnings news premarket, how will you play it? Probably short it on the market's open, if you think it will sell off due to profit taking.

A final note: Make Sure to keep an eye on your stock premarket using the [island java book](#) and Level 2 (if you have it). If I have a rare overnight hold, I will frequently sell it off at 8:30-9:15 on ISLD before the market opens if I'm up with a decent profit.

In general, I usually sell into the opening momentum and wait til at least 9:35 (after initial open orders are cleared) to trade. My favorite trading times are Tue-Wed-Thur morning 9:35 til 11am. Volume tends to be lighter monday mornings, slower opens, so I avoid them. I usually do not trade the afternoon, as the pace is often slower.

Market
Opens

Ding ding. Ok, the market's open. **There's several distinct "trading waves" in the first half hour of the market open, from 9:30 thru 10:00.** In time, you'll be able to 'feel' the momentum of these waves based on buying and selling momentum, pace and volume.

You should almost never buy an opening gap up; there is a favorite market maker trick called the **"gap and trap"**; designed to lure in traders who think a stock is hot and headed up. Eg EBAY closed at 57.65 the day before, now it opens at 58.8 and ticks up to 59.5 by 9:32am. Do you buy? **Probably not.** *Not unless you see higher highs and higher lows sustained for a few minutes on higher-than-average volume.*

Wait for an initial pullback to buy any stock on the open, to see how deep the pullback is. If it continues all buyers, then you might want to jump on board. **It will usually, however, sell off** as market makers who have shorted it on open will continue selling until daytraders start panicking out of their positions.

9:30 - 9:40ish: The first market action occurs: a rush of buying or selling. You should be following the overall Nasdaq composite index at this time very carefully. See my [4-monitor trading screen setup](#); on the far right the two large black

indexes are the \$COMPQ and the \$TRINQ. I always look at these first before, during and after I trade stocks. I also watch sector index charts, like the \$SOX and \$GIN.

9:40-9:50: The first reaction wave occurs; either the trend continues or starts to reverse from its initial direction. Pay close attention here.

9:50-10:00 The main thing to remember is that the market will frequently change direction several times in the first hour of the trading day, from 9:30-10:30. Be sure your trades are on the right side of the composite trend.

10:00 Market Pivot time: this is a key time for the open, if the market's been getting buyers 9:30-10am, here is where it will often reverse directions and vice versa. I usually close open positions I've had from say 9:52 at 9:58 am type of trading.

10:15 - 11:30 This is a time where I trade many of my positions (60%). My daytrades are rarely longer than 15 minutes roundtrip each, unless the stock is on a steady climb up.

11:30 - 1:30 "Deadzone Hours": Play with caution. Usually I will short a top that's starting to weaken during the low-volume, dangerous lunch hours. This is the time where stock usually stays flat or declines. I usually sit out the lunch zone.

1:30 - 3:00 Another trade window, somewhat less volatile than the morning, I make around 10% of my trades during this time.

3:00 Bond Markets Close: Look for sell/buy programs to kick in.

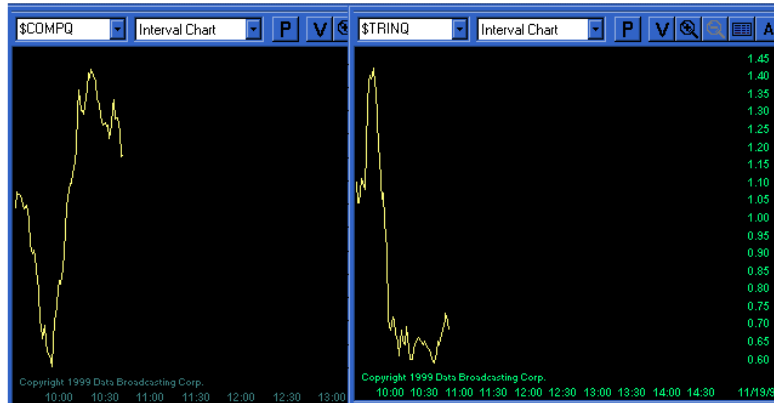
3:00-4:00 Final hour to trade for the day; **the second-best time to trade stocks. I may do some trades here, especially friday afternoons, if the COMPQ is making a 2day high or low.** Hint: stocks usually continue their opening pattern during this time (if it trended up in the first 2 hours, stayed flat/down over lunch, it will probably trend up during the last hour as well).

The only exception is if a stock has been downtrending all day, in which case short covers may cause a small "cover rally" in the last half hour. These can be profitable and explosive plays; I've frequently seen stocks gain back 1-3% in 30 minutes here.

Market Closes

Post-Market plays: If you want to see if you can get some casual investor to "buy the news" on a stock you bought and held earlier in the day (overnight/swing traders), you may want to offer to sell it on ISLD after market for a nice profit.

How would you daytrade in the next 15 minutes, based on these two charts??



Note the \$TRINQ went all the way to 1.45 before having a sharp reversal, when the Nasdaq composite started up. The \$TRINQ is now consolidating and headed upwards, which corresponds to a downtrend in the Nasdaq index for now. Use the two in combination.

We'll get into daytrading chart patterns and TA in a later lesson. For now, here's a profitable chart combination I use all the time:

- Nasdaq Composite Index 1-minute close line chart
- Nasdaq TRIN 1-minute close line chart: the \$TRINQ is a great contrary indicator for the Nasdaq; I use it in conjunction w/\$PREM, \$TYX, SP9 and the leading indicators to confirm market direction, pivots and trend reversals.
- **Pro Daytrading Tip:** In general, I am hesitant to buy stock long if the \$TRINQ is >1.0 and am looking to go short when the \$TRINQ is >1.50 (or, I'm looking for 'when will it bounce?'). If the \$TRINQ is under 1.0 I am much more comfortable in taking a long position, and am aggressively looking to buy stocks if the \$TRINQ is <.70.
- Many traders also use the spoos/naz futures/\$PREM/\$TYX as leading indicators.

Here's a screensnap of the nasdaq composite index and \$trinq for a recent day:

A quick intro to Level 2 screens: (we'll have much more in Module 2 on Level 2 Trading)

NGVL - 17 7/16 b 17 7/16 a 17 1/2 21 x 30 2.02% 12:14									
MMID	Bid	Ask	MMID	Bid	Ask	MMID	Bid	Ask	MMID
ISLD	17 7/16	17 1/2	INCA	17 1/2	30	12:14	17 7/16	1.00K	
BRUT	17 7/16	17 1/2	ISLD	17 1/2	17	12:15	17 1/2	200	
BTRO	17 7/16	17 1/2	BTRO	17 1/2	10	12:15	17 7/16	100	
GSFC	17 7/16	17 1/2	NASH	17 1/2	1	12:15	17 7/16	100	
NALCO	17 7/16	17 1/2	SILK	17 1/2	1	12:15	17 1/2	200	
FBIO	17 7/16	17 1/2	LEHM	17 1/2	1	12:15	17 1/2	200	
BEST	17 7/16	17 1/2	NALCO	17 1/2	10	12:15	17 7/16	1.00K	
WEDA	17 7/16	17 1/2	SHWD	17 1/2	5	12:15	17 7/16	800	
AGED	17 7/16	17 1/2	NITE	17 1/2	1	12:15	17 7/16	200	
WSTI	17 7/16	17 1/2	SWST	17 1/2	1	12:15	17 1/2	400	
DINH	17 3/8	20	FCAP	17 1/2	1	12:15	17 1/2	1.00K	
PRSH	17 3/8	20	PRWS	17 1/2	1	12:15	17 1/2	1.00K	
INCA	17 3/8	15	SSSR	17 1/2	10	12:15	17 1/2	2.00K	

This is a **bullish level 2 screen**; eg many buyers at 17 7/16 and not many sellers. You should Buy Limit Bid 17 7/16 to join the ISLD buyers, or buy Limit at 17 15/32 to front run the current inside bid.

Note the green sell (2nd inside ask) band is paper-thin with only 2 mm's at 100 each, where there's a lot of heavyweight mm's bidding 10 deep. Again, level 2 must be the last thing you look at, also consider chart trends and market direction.

Decimal trading note: I will be updating many of the lessons to reflect decimal trading during 2002.



[Send us email](#)

[DISCLAIMER](#)

COPYRIGHT (c) 1999 Hawaii Business Training Group. All rights reserved.

Successful Online Daytrading Training Resources

SBUX + 24 1/8 b 24 a 24 1/8 10 x 10 533K 9:59									
MMID	Bid	Ask	MMID	Bid	Ask	MMID	Bid	Ask	MMID
NSCO	24	10	BTRO	24 1/8	10	9:59	24 1/8	2.00K	
WONT	24	1	NABE	24 1/8	20	9:59	24 1/8	2.00K	
NALCO	23 15/16	10	ISLD	24 1/8	10	9:59	24 1/8	100	
WBLR	23 15/16	1	NASH	24 1/8	10	9:59	24 1/8	100	
GSFC	23 7/8	10	OLDE	24 1/8	10	9:59	24 1/8	100	
GNWC	23 7/8	1	USCO	24 1/8	10	9:59	24 1/8	100	
LENN	23 15/16	1	BRUT	24 1/8	5	9:59	24 1/8	500	
SIST	23 1/2	10	NFSC	24 1/8	1	9:59	24 1/8	500	
SASH	23 3/4	10	NWSE	24 1/8	1	9:59	24 1/8	1.00K	
OLIP	23 3/4	10	DKKS	24 1/8	1	9:59	24 1/8	1.00K	
PRWS	23 3/4	1	SILK	24 1/8	1	9:59	24 1/8	100	
FCAP	23 3/4	1	DBAN	24 1/8	1	9:59	24 1/8	1.00K	
SWCO	23 3/4	1	PRMS	24 1/8	1	9:59	24 1/8	100	

This is a **bearish level 2 screen**, notice how many sellers (a wall of sellers) to go thru at 24 1/8 on SBUX. Also notice how thin the support levels are on the bid side, only 1-2 market makers at each of the next 4 spreads.

Buying here is a no-no; it's unlikely all the sellers will step off the 24 1/8 ask and let the price go up. This is the advantage Level 2 provides, you can see how deep the buyers vs sellers really are.